MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2018/2019

PEM0034 – ESSENTIAL OF MACROECONOMICS

(All sections / Groups)

17 OCTOBER 2018
9.00 a.m – 11.00 a.m
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **SIX (6)** pages with **TWO** sections only.
   Section A – Twenty (20) Multiple Choice Questions
   Section B – Four (4) Short Structured Questions

2. Attempt **ALL** questions in both **Sections A** and **B**. The distribution of the marks for each question is given.

3. Answer **Section A** in the MCQ answer sheet provided and **Section B** in the answer booklet provided.

SECTION A (20 marks)

Instruction: Answer all of the questions in the multiple-choice answer sheet.

1. Inflation occurs when the
   A) value of money is rising.
   B) the general price level is rising.
   C) value of real GDP increases.
   D) value of real GDP decreases.

2. Suppose that the data in the following table reflects the prices in the economy. What is the inflation rate between 2013 and 2014?

Year	CPI
2013	175
2014	180

   A) 5 per cent
   B) 2.9 per cent
   C) 4.6 per cent
   D) 7.5 per cent

3. If inflation is completely anticipated,
   A) no-one loses.
   B) borrowers lose.
   C) lenders lose.
   D) firms lose because they incur menu costs.

4. Tools in monetary policy include
   A) central bank buys or sells bonds.
   B) government changes the tax rate.
   C) government changes the government purchase (G).
   D) All of the above.

5. If the Central Bank lowers the interest rate, this indicates that it is
   A) pursuing an expansionary fiscal policy.
   B) pursuing a contractionary monetary policy.
   C) attempting to combat inflation.
   D) concerned that the growth in aggregate demand will exceed potential GDP.

6. In order to reduce unemployment, the government could
   A) decrease government spending.
   B) increase taxes.
   C) decrease interest rates.
   D) do nothing.

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7. A full-time student who is not working is categorised as
   A) unemployed.
   B) employed.
   C) not in the labour force.
   D) not in the working-age population.

8. Unemployment arising from the process of matching workers with jobs is called
   A) frictional unemployment.
   B) structural unemployment.
   C) cyclical unemployment.
   D) seasonal unemployment.

9. Unemployment causes the economy produces
   A) within production possibility frontier
   B) at production possibility frontier
   C) outside production possibility frontier
   D) none of the above

10. Full employment refers to the situation
   A) without cyclical and structural unemployment
   B) without frictional unemployment
   C) without frictional and cyclical unemployment
   D) without frictional and structural unemployment

11. A tariff is a tax imposed by a government on
   A) exports.
   B) services.
   C) imports.
   D) luxury items.

12. Exports are domestically produced goods and services
   A) sold to other countries.
   B) sold to the government.
   C) sold at home.
   D) which are used to produce other goods and services.

13. _____ is the ability of a country to produce a good or service at a lower opportunity cost than competitors.
   A) Absolute advantage
   B) Specialisation
   C) Autarky
   D) Comparative advantage

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14. The table below lists the number of pies and cakes Sarita and Gabriel can each bake in one day.

	Pies	Cakes
Sarita	15	25
Gabriel	12	16

Which of the following is correct?

A) Sarita has an absolute advantage in baking cakes and Gabriel has an absolute advantage in baking pies.
B) Sarita has an absolute advantage in baking pies and Gabriel has an absolute advantage in baking cakes.
C) Sarita has an absolute advantage in baking pies and cakes.
D) Gabriel has an absolute advantage in baking pies and cakes.

15. Which of the following is not a source of comparative advantage?

A) Relative abundance of labour and capital
B) Technology
C) Climate and natural resources
D) A strong foreign currency exchange rate

16. The difference between an open economy and a closed economy is that

A) an open economy interacts with the rest of the world, a closed economy does not.
B) a closed economy uses fiscal policy, an open economy uses monetary policy.
C) an open economy is a market economy while a closed economy relies on central planning.
D) a closed economy balances budgets, an open economy does not.

17. The balance of payments includes all of the following accounts except the

A) current account.
B) financial account.
C) capital account.
D) national debt account.

18. A goods trade deficit indicates that a

A) country imports more than it exports.
B) country imports less than it exports.
C) country's imports equal its exports.
D) country's trade has decreased on average.

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19. The demand for the Japanese yen in exchange for Malaysian Ringgit will increase when
    A) Japanese interest rates increase relative to interest rates in other countries.
    B) income in Malaysia falls.
    C) speculators think the value of the yen relative to the Ringgit will fall.
    D) the desirability of investing in Japan falls.

20. Suppose that the exchange rate between the Japanese yen and the Australia dollar is currently ¥60 = $1, then an individual could trade
    A) 10 yen for $0.60.
    B) 10 yen for $6.00.
    C) 10 yen for $0.17.
    D) 10 yen for $0.01.

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Section B (80 marks)

Instruction: Answer all of the questions at answer booklet.

Question 1

(a) The table below shows the population of a country.

Type	Number
Total population	10,000,000
Working-age population	6,000,000
Employed	4,000,000
Unemployed	500,000

Compute the labour force participation rate and unemployment rate. Interpret the numbers. (10 marks)

(b) Discuss TWO (2) things that the government can do in order to reduce the unemployment rate.

(10 marks)

[Total: 20 marks]

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Question 2

(a) The table below shows the maximum production of products A and B by two nations with similar resources if they produce only one product at a time:

Nation	Product A	Product B
X	6	6
Y	4	8

Identify the nation with absolute advantage and comparative advantage for product A and B. (5 marks)

(b) Refer to part (a) above, show that both nations will be better off if they specialised in the product that they have comparative advantage in and trade with each other; compared to if they producing everything on their own (assume that both of them allocate 50% of their resources on A and B respectively in this case). (10 marks)

(c) Explain ONE (1) possible reason that a nation could have a comparative advantage in producing a product compared to other countries. (5 marks)

[Total: 20 marks]

Question 3

Explain the impact of the following events on the Malaysian Ringgit with the aid of the demand-supply of Ringgit diagram (exchanged with United States Dollar):

(a) The United States suffer from economic crisis. (10 marks)

(b) Malaysian prefer to buy national car than an imported car. (10 marks)

[Total: 20 marks]

Question 4

(a) Discuss the impact on borrowers and lenders if the inflation rate is higher than expected by using a numerical example. (10 marks)

(b) Explain one of the causes of inflation with the aid of an aggregate demand and aggregate supply diagram. (10 marks)

[Total: 20 marks]

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